

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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As The Recovery Proceeds . . .

Judging by the recent flurry of positive economic news, the U.S. economy rounded the midyear turn on a note of strength. With consumer spending leading the way, factory orders, industrial production and capacity utilization rates are all expanding briskly, while the rate of unemployment fell to ten per cent in June—its lowest level in almost a year. And, as with other post-World War II recoveries, the big twin engines of postwar economic growth, automobiles and housing, have so far registered the most vigorous rebounds.

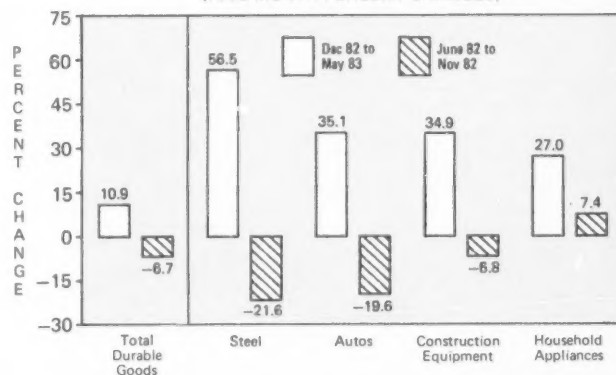
Take, for example, automobiles. With consumer confidence brightening and auto loan rates slumping, the nation's automakers reported that sales in June ran at a seasonally adjusted seven million unit annual rate. This was the best June number in four years and a 46 per cent improvement compared with June, 1982 levels. Sales have been so good, in fact, that some dealers are now complaining that they are running out of several of the most popular models, the type of problem they have not faced for years. What is more, as sales have turned sharply higher, auto production has revived. Auto assemblies ran at a 6.8 million unit, seasonally adjusted annual rate in June, 35 per cent higher than production levels of just six months ago.

So, too, better economic prospects, lower mortgage interest rates and good weather have given a good-sized boost to the housing industry. In May, homebuilders enjoyed their busiest month in over three years. Housing starts ran at a seasonally adjusted 1.8 million unit annual rate during the month, an almost 20 per cent jump compared with April, and a hefty 75 per cent higher than May, 1982 levels. What is more, building permits—a harbinger of future construction activity—increased again in May, assuring further momentum to the housing upturn. Nor are the houses sitting idle for long once they are completed. With mortgage interest rates standing at a three-year low in May, sales of new single-family homes reached a three-year high, reducing the inventory of unsold new homes to just a five month supply—its lowest level since March, 1977.

. . . Its Benefits Spread . . .

With signs of recovery widespread, it is hardly surprising that business confidence, as well as consumer confidence, has brightened. According to the Conference Board, business confidence in the second quarter reached its highest point in the seven year history of their survey. Another survey, this one of purchasing managers for 250 industrial companies yields similar results. The purchasing managers reported that new orders, production and employment all increased in June at a faster clip than in May. They also reported that deliveries from suppliers slowed for the fifth month in a row, indicating that order backlogs are growing.

NEW FACTORY ORDERS: TOTAL DURABLE GOODS AND
SELECTED INDUSTRIES
(FIVE MONTH PERCENT CHANGES)



Indeed, the robust upturn in new factory orders is one of the clearest signs yet that the recovery is solidly on track—and may stay there for quite some time. After falling almost nonstop since the onset of the recession in 1981, the value of new factory orders has recently turned around, with hardgoods orders alone rising by more than ten per cent during the last five months. Not only has the strong upturn in both the auto and housing industries boosted new orders for automotive equipment and household appliances, but other major industries have shared in the economic rebound as well including lumber, steel, construction equipment and electrical machinery (see chart).

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As utilization rates increase, even business spending for new plant and equipment may revive sooner than anticipated. Although new orders for non-defense capital goods, a key barometer of future plant and equipment spending, slipped two per cent in May month-over-month, increased factory orders are already feeding back into the important machine tool industry. New orders for machine tools rose 14 per cent in May compared with April levels, pushing the value of machine tool orders 28 per cent higher than in May, 1982. This was the first time in over three years that this industry's new orders surpassed their year-ago levels.

Furthermore, the pace at which businesses are awarding new construction contracts is accelerating. The F.W. Dodge survey reported that the value of contracts for new construction soared to \$18.9 billion in May—an all-time, dollar high. To be sure, residential construction is soaring, but nonresidential construction appears to be strengthening as well. Awards of non-residential contracts posted a seasonally adjusted ten per cent annual rate gain in May, as spending on such commercial and industrial buildings as stores, warehouses, offices and factories surged.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/29/83	\$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	150.505	— .859	+11.045
Loans to Depository Inst.	2.102	+ .387	+ .486
Float	1.706	+ .024	+ .031
Total Reserve Bank Credit	162.821	— .511	+11.043
Treasury Deposits with			
Federal Reserve Banks	3.858	+ .020	+ .718
Currency Outside Banks	142.039	— .646	+11.790
Member Bank Reserves:			
Required	38.566	— .028	— 1.238
Excess (Deficiency)	.592	+ .074	+ .064
Total Reserves Held	39.158	+ .046	— 1.174
Net Borrowed Reserves	.105	+ .094	— .622
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.758	+ 2.091	+14.636

		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1	500.3	+ 11.2*	+ 12.9*
M2 (May '83)	2,097.3	+ 9.1	+ 13.3
M3 (May '83)	2,477.6	+ 7.7	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 7/8/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.85%	9.05%	9.10%
* Federal Agencies	9.00	9.60	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.98	11.11
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.60	9.95	10.50
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.13%	Jul.	9.25%
15- 29 days	9.13	Aug.	9.25
30- 59 days	9.13	Sep.	9.30
60- 89 days	9.13	Oct.	9.40
90-179 days	9.13	Nov.	9.45
180-239 days	9.13	Dec.	9.45
240-270 days	9.13		
‡ Industrial Paper—Prime		† Federal Funds Effective Rate	9.10%
30- 89 days	9.13%		
90-120 days	9.13		

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	\$ 3,171	\$ 3,108	\$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	\$ 1,487	\$ 1,477	\$ 1,471
Percent Change, Annual Rate	1st Q'83	2.6	— 1.1	— 5.1
Change in Consumer Prices (new series)*	May '83	6.0%	7.2%	12.0%
Change in Producer Prices*	May '83	3.6%	— 1.2%	0.0%
Civilian Employment (Thousands of Persons) †	Jun '83n	100,786	99,557	99,681
Unemployment as % of Civilian Labor Force †	Jun '83n	10.0%	10.1%	9.5%
Personal Income*	May '83	\$ 2,711	\$ 2,679	\$ 2,556
Leading Indicators Composite Index (1967=100) †	May '83n	154.5	152.6r	136.2
Industrial Production Index (1967=100) †	May '83	144.3	142.7	139.2
Net Change in Consumer Installment Credit †	Apr '83	\$ 2.27	\$ 2.58	\$ 1.62
U.S. Merchandise Trade Balance †	May '83n	—\$ 6.91	—\$ 4.60	—\$ 3.30
Plant and Equipment Expenditures*	3rd Q'83	\$306.83(a)	\$302.23(a)	\$315.79
Private Housing Starts (Thousands of Units)*	May '83	1,791	1,504	1,028
New Construction Expenditures*	May '83n	\$ 253.0	\$ 245.6r	\$ 228.7
Total Business Inventories †	Apr '83	\$ 505.6	\$ 503.2	\$ 523.4
Total Business Sales †	Apr '83	\$ 350.6	\$ 348.0	\$ 344.9

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

... Even To The Steel Industry

But while the upturn in business activity spells good news for almost all industries, it certainly comes none too soon for the hard-hit steel industry. Battered by severe recession, rising imports and mounting financial losses, the steel industry suffered its worst year in 1982 since the Great Depression. However, this year should be different. Already, as a result of increased demand from such industries as autos and household appliances, the steel industry is beginning to experience a modest revival. New orders for steel mill products have surged 56.5 per cent since the turn of the year, output has increased

virtually nonstop and capacity utilization rates have just about doubled—from a post-Depression low of 30 per cent in December, to 55 per cent today.

But shipments to the capital goods industries, which usually consume about two-thirds of domestic steel, have yet to improve. In the first five months of 1983, shipments of steel to manufacturers of tools, machinery and industrial equipment were still running 37 per cent below the levels of the same period a year ago, shipments to the agricultural machinery sector were down 27 per cent and shipments to the oil and gas industry had dropped 82 per cent. **H**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (6/22/83)	95,700	+ 1,860	-39,524
New York City (6/22/83)	22,083	+ 22	-11,044
Commercial Paper (6/22/83)	173,921	+ 3,553	- 6,623*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/22/83)	214,197	+ 633	+ 4,925
New York City (6/22/83)	58,258	+ 529	- 603
Total Loans Gross Adjusted			
	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/22/83)	501,538	- 3,034	+ 13,385
New York City (6/22/83)	115,514	- 1,779	+ 2,618

Financial Markets

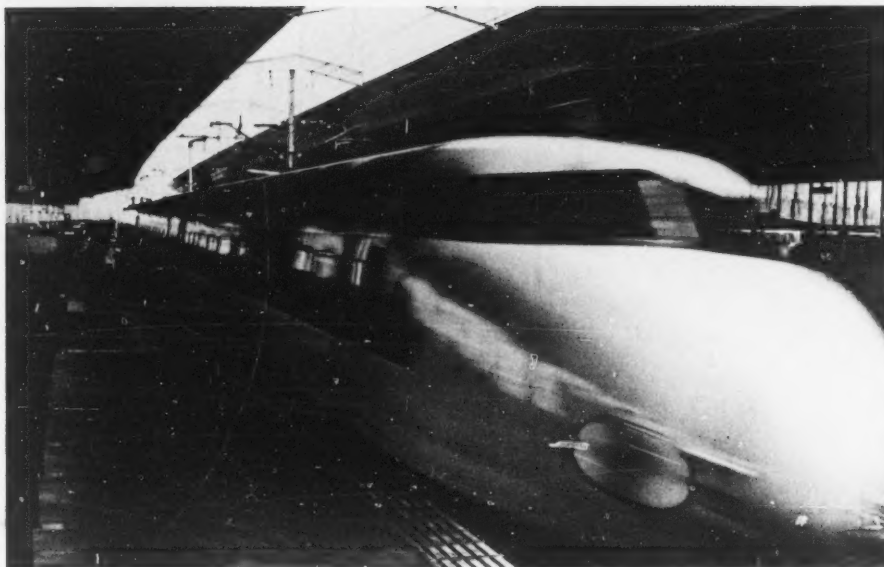
	Friday 7/8/83	Change Since Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	9.40%	+ .47	- 2.35
180-Day Billst	9.80	+ .43	- 2.80
Longest Billst	10.10	+ .48	- 2.90
Recent Issues:			
10s 6/30/85	10.57	+ .38	
10 ¹ / ₂ s 6/30/87	10.98	+ .38	
10 ¹ / ₈ s 5/15/93	11.25	+ .33	
10 ³ / ₈ s 11/15/12	11.30	+ .32	
Municipals:			
Bond Buyer-20 Bond Index* (7/7/83)	9.55%	+ .19	- 2.92
Blue List Total (\$ Million)	\$1,021	- \$ 35	+ \$197
30-Day Visible Supply (\$ Million)	\$1,812	+ \$144	+ \$102
Total	\$2,833	+ \$109	+ \$299
Corporates:			
Moody's Aa Composite (7/7/83)	12.28%	+ .12	- 3.16
30-Day Visible Supply (\$ Million)	\$366	- \$ 20	\$1,059
Stocks:			
Dow-Jones Averages:			
Industrials	1,207.23	- 18.03	+ 393.11
Transportation	575.28	- 11.33	+ 254.69
Utilities	129.29	+ .37	+ 22.47
65 Stocks	483.90	+ 6.81	+ 167.20
Standard and Poor's 500 Stocks	167.80	- 1.11	+ 58.97
N.Y.S.E. Composite Index	96.89	- 1.02	+ 34.35
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,215	+ 4,197	+ 26,299

* 46% Taxable equivalent 17.69%.

† Bond equivalent.

International Rates

	Friday 7/8/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.00%	9.50%
1 month	9.75	9.44
3 month	10.06	9.63
6 month	10.38	9.88
1 year	10.50	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.45
FOREIGN EXCHANGE SPOT RATES		
New York Opening (7/8/83)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.01939	51.56
Canada	.8124	1.2309
Denmark	.1083	9.2360
France	.1294	7.7265
Germany	.3887	2.5725
Italy	.0006568	1522.50
Japan	.004159	240.43
Mexico	.006711	149.00
Netherlands	.3473	2.8790
Switzerland	.4706	2.1248
U.K.	1.5405	.6491



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